

BERKLEY SCHOOL DISTRICT

FINANCIAL REPORT

June 30, 2008

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Report of Independent Certified Public Accountants

Birmingham
Michigan

Board of Education
Berkley School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berkley School District as of June 30, 2008, and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

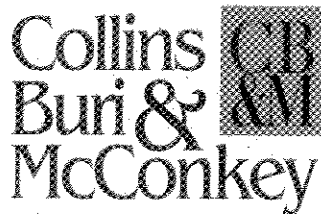
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Berkley School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 1, 2008, on our consideration of Berkley School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 18 and pages 39 and 40 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and the presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Collins, Bari & McConkey, LLP

Birmingham, Michigan
October 30, 2008



CERTIFIED PUBLIC ACCOUNTANTS

LIMITED LIABILITY PARTNERSHIP

**Independent Auditors' Report on Internal Control
Over Financial Reporting and Compliance
and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

Birmingham
Michigan

Board of Education
Berkley School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berkley School District as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berkley School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Berkley School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be significant deficiency in internal control over financial reporting as item 2008-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berkley School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and are described in the accompanying Schedule of Findings and Responses as Items 2008-2 and 2008-3.

Berkley School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Collins, Buri & McConkey, LLP

Birmingham, Michigan
October 30, 2008

BERKLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ending June 30, 2008

This section of the Berkley School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement #34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, issued June 2000. The School District has provided certain comparative data between the fiscal years ended June 30, 2007 and 2008, as required by GASB #34.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Berkley School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds (the General Fund, and Community Services Fund) with all other funds presented in one column as Other Governmental Funds. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The financial report statements also include *Notes* that further explain some of the more significant information in the statements and provide additional, detailed data. The statements are followed by a section of *Required Supplemental Information* that further explains and supports the financial statements with a comparison of the District's original budget and final budget for the 2007-08 fiscal year. The following schedule shows how the various parts of the annual report are arranged and related to one another:

BERKLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For Fiscal Year Ending June 30, 2008

Organization of Berkley School District's Annual Financial Report

Management's Discussion & Analysis (MD&A)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

*(Required Supplemental Information)
Budgetary Information for General Fund
and Community Services Fund*

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "Is the School District as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *full accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the School's net assets – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses is the School District's *operating results*. However, the School District's goal is to provide programs and services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education and curriculum provided and the safety of the schools to assess the *overall health* of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, food services, school services, and capital improvement projects, as well as debt service. Property taxes, foundation allowance revenue, and state and federal grants finance most of these activities.

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most *significant funds* – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (e.g. Food Service Fund, School Services Fund, Athletic Fund, and Other Capital Projects Fund) or to show that it is meeting legal responsibilities for using certain taxes, and other financial resources (such as taxes received for the retirement of debt from the local taxing entities or for Sinking Fund purposes). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported as governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are greater or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee or *fiduciary* for its student activity funds. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007 and June 30, 2008, respectively:

TABLE 1

	Governmental Activities (in millions)		Total Percentage Change
	2007	2008	2007-08
ASSETS			
Current assets	\$12.3	\$13.0	5.7%
Capital assets-Net of accumulated depreciation	<u>37.4</u>	<u>36.4</u>	(2.7)
Total assets	<u>\$49.7</u>	<u>\$49.4</u>	(.6)%

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

TABLE 1 (Continued)

	Governmental Activities (in millions)		Total Percentage Change 2007-08
	2007	2008	
LIABILITIES			
Current liabilities	\$ 9.2	\$ 9.0	(2.2)%
Long-term liabilities	<u>32.2</u>	<u>30.1</u>	(6.5)
Total liabilities	<u>41.4</u>	<u>39.1</u>	(5.6)
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4.7	\$ 5.9	25.5%
Restricted for debt retirement	1.0	1.0	-
Restricted for capital projects	-	.3	N/A
Unrestricted	<u>2.6</u>	<u>3.1</u>	19.2
Total net assets	<u>\$ 8.3</u>	<u>\$10.3</u>	24.1%

The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$10.3 million on June 30, 2008. Capital assets, net of related debt totaling \$5.9 million compares the original costs, less depreciation of the School District's capital assets to long-term debt, including accreted interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that prohibit the School District's ability to use those net assets for day-to-day operations. Restricted net assets for Capital Projects essentially captures the Sinking Fund assets dedicated to fund capital improvements. The remaining amount of net assets of \$3.1 million was unrestricted.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year ending June 30, 2008. Comparative numbers for fiscal year ending June 30, 2007, are provided.

TABLE 2

	Governmental Activities (in millions)		Total Percentage Change 2007-08
	2007	2008	
REVENUES			
General revenues:			
Property taxes levied for general purposes	\$ 3.0	\$ 3.2	6.7%
Property taxes levied for debt services	3.6	3.7	2.8
Property taxes levied for Sinking Fund purposes	.7	.7	-
Federal and state aid not restricted for specific purposes	31.5	31.8	1.0
Other	3.8	2.7	(28.9)%

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

TABLE 2 (Continued)

	Governmental Activities (in millions)		Total Percentage Change 2007-08
	2007	2008	
REVENUES (Continued)			
Program revenues:			
Grants and categoricals	\$ 4.2	\$ 4.5	7.1%
Charges for services	<u>3.3</u>	<u>3.4</u>	3.0
Total revenues	50.1	50.0	(.2)%
FUNCTION/PROGRAM EXPENSES			
Instruction	23.9	24.9	4.2%
Supporting services	15.1	15.5	2.6
Food services	.7	.7	-
School services	2.4	2.6	8.3
Athletics	.6	.7	16.7
Interest on long-term debt	1.6	1.5	(6.3)
Depreciation (unallocated)	1.1	1.0	(9.1)
Other	<u>1.3</u>	<u>1.1</u>	(15.4)
Total expenses	<u>46.7</u>	<u>48.0</u>	2.8%
Net increase in net assets	\$ <u>3.4</u>	\$ <u>2.0</u>	(41.2)%

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$48.0 million. Certain activities were partially funded from those who benefited from the programs in the amount of \$3.4 million or by other governments and organizations that subsidized certain programs with grants and contributions of \$4.5 million. The District paid for the remaining "public benefit" portion of our governmental activities with \$7.6 million in taxes, \$31.8 million from federal and state aid not restricted for specific purposes and other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$2.0 million. Major factors contributing to this increase include excess revenues over expenditures in the General Operating Fund and Special Revenue Funds (see Statement of Revenues, Expenditures, and Changes in Fund Balance statement) and the reduction of \$2,095,000 in bonded debt via the payment of debt service during fiscal 2007-08. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 23.

As discussed above, the net costs show the financial obligation that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

In the following table, we have presented the cost of each of the School District's five of the largest functions – instruction, supporting services, food services, school services, and athletics, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial obligation that was placed on the School District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Net Cost of Berkley School District's Governmental Activities (In Millions of Dollars)

	Total Cost of Services For the Years Ended,		Percentage Change 2007-2008	Net Cost of Services For the Years Ended,		Percentage Change 2007-2008
	2007	2008		2007	2008	
Instruction	\$23.9	24.9	4.2%	\$19.5	\$20.3	4.1%
Supporting services	15.1	15.5	2.6	15.1	15.5	2.6
Food services	.7	.7	-	-	-	-
School services	2.4	2.6	8.3	.1	.3	200.0
Athletics	.6	.7	16.7	.5	.6	20.0
All others	<u>4.0</u>	<u>3.6</u>	(10.0)	<u>4.0</u>	<u>3.4</u>	(15.0)
Total	<u>\$46.7</u>	<u>\$48.0</u>	2.8%	<u>\$39.2</u>	<u>\$40.1</u>	2.3%

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader to consider whether the School District is being accountable for the resources taxpayers and others provide to it, but may also give you more insight into the School District's overall financial health.

As the School District completed this year, our governmental funds reported a combined fund balance of \$7.0 million, which is an increase of \$900,000 from last year. This is due mainly to the following:

- The General Fund experienced an increase in fund balance of \$240,000. This was due primarily to salary, benefit and utilities costs coming in under the budgeted figures as well as increased revenue in the property tax, interest income, and refunds line items.

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

The School District's Funds (Continued)

- The Community Services Fund collectively summarizes the financial activity included in the following programs/individual funds: Swim, Enrichment, Latchkey, Childcare, Durant Fund, Hurley Field Fund, and Fitness Center Fund. The June 30, 2008 fund balances for the following programs were as follows:

Durant	\$ 2,114,000
Hurley Field	36,033
Fitness Center	(1,799)
School Services	<u>38</u>
Total	<u>\$ 2,148,272</u>

The Durant fund balance (principal) increased by \$313,747 from 2006-07 as the original principal of this fund was replenished. The Hurley Field Fund experienced a slight reduction in fund balance of \$632. The Fitness Center realized an operating loss of \$139. The child care program's fund balance was reduced by \$3,766.

- The Other Governmental Funds include the Debt Service, Athletic, Food Service, and Sinking Funds. Debt Services experienced a slight increase of \$ 50,840 in fund balance during 2007-08. The Food Service Fund experienced \$57,591 in cash receipts and other revenue greater than expenditures this school year. The Athletic Fund completed the year with a \$6,068 fund balance. The Sinking Fund added \$156,755 to fund balance which will greatly assist in funding future initiatives – primary of which include roofing and paving projects.

The June 30, 2008 fund balance figures for the component funds/programs comprising the general Other Governmental Funds were as follows:

Debt Service	\$1,068,713
Athletic	6,068
Food Service	154,865
Sinking Fund	161,929
Capital Projects	<u>146,707</u>
Total	<u>\$1,538,282</u>

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

General Fund Budgetary Highlights

Over the course of the year, the School District revised its budget to reflect material adjustments or unexpected changes in budgeted revenues and expenditures. The final amendment to the budget was adopted near year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually received and paid is provided in our annual report.

Some of the material revisions made to the 2007-2008 General Fund original budget are outlined below.

Budgeted revenues were increased by \$616,099 from the original budget to the final budget primarily due to the following significant changes:

- Increase in local sources – increase to property taxes, interest income, insurance refund – \$209,270
- Decrease in state aid – state aide foundation grant revenue increase netted against state aid categorical reduction (special ed) – (\$79,876)
- Increase in funded programs – Title I - \$162,000 and Middle School Counseling Grant – \$187,000
- Increase in state aid – no major change
- Inter-District Transfers – additional PA18, special education and early intervention revenue – \$156,000

Budgeted expenditures and other financial sources (uses) were increased by \$895,209 due primarily to the following significant changes:

- Increase in teacher salaries and benefits, including growth to the Tri County Educational Center Program, Title I and Counseling Grant – \$382,200
- Reduction to administrative costs (Technology Director) – (\$124,300)
- Increase in expenditures to recognize carryover funds from fiscal 2006-07 – \$84,000
- Increase in non-salary grant expenditures (Title I, Counseling Grant) – \$143,000
- Recognition of demolition cost for Oxford facility – \$230,000

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

Community Services Fund Budgetary Highlights

This fund was amended to reflect the new revenues related to the Readiness Emergency Management for Schools Grant and Tri Community Coalition Drug Free Schools Grant.

Capital Asset and Debt Administration

Capital Assets

The District's net investments in capital assets decreased during the year by \$ 897,325 which is summarized below (see Note E):

	Capital Assets	
	Year Ended June 30, 2007	Year Ended June 30, 2008
Buildings and improvements	\$36,480,952	\$35,549,478
Furniture and equipment	828,296	850,142
Vehicles	<u>20,589</u>	<u>32,892</u>
	<u>\$37,329,837</u>	<u>\$36,432,512</u>

Debt

At the end of the 2007-08 fiscal year, the School District had \$30.6 million in bonds outstanding compared to \$32.7 million last fiscal year, a decrease of \$2.1 million or 6.4% (see Note F). The bonds referred to consisted of the following:

	Outstanding Debt	
	Year Ended June 30, 2007	Year Ended June 30, 2008
General obligation bonds	<u>\$32,650,000</u>	<u>\$30,555,000</u>

The School District is currently in the process of obtaining its bond rating as part of its "potential" bond refunding initiative. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding general obligation debt of \$30.6 million is significantly below this limit, which is currently \$140 million.

Other obligations include accrued vacation pay and earned severance commitments. Capital leases are the financial vehicle used to fund copier purchases throughout the District. There is additional detailed information about the district's long-term liabilities in the Notes to the Financial Statements (see Note F).

The Board is investigating the opportunity to refund the remaining portion of its 1999 Refunding Bond Issue.

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

Other Key Information, Economic Factors and Next Year's (2007-2008) Budget Notes:

At the time these financial statements were prepared and audited, the District was aware of pending matters that *may* or *likely will* influence the financial health of the District. Key items of information are offered as well:

- The District is anticipating an increase in the foundation allowance of \$87 per student for the 2008-09 school year. Threats of a revenue proration are looming, potentially occurring after the general election.
- The per student increase of \$87 noted above would result in a modest increase to district revenue. However, incremental salary steps, as an example, have absorbed these "new" dollars.
- The District completed the demolition of the Oxford facility this year.
- The district's tool for long range planning, Vision 2020, is in high gear. All eight (8) key goal areas are moving forward and making positive changes under the guidance of Superintendent Michael Simeck.
- The District completed its first year (2007-08) under a third party administrator arrangement to provide substitute teachers employment and placement services. This year, the district expanded this arrangement to provide support staff substitutes and coaching services, saving the district an estimated \$30,000 in 2008-09.
- The District entered into an agreement with Southfield Public School District to lease space for the District's Tri County Educational Center program. In addition, both schools signed an agreement to jointly offer child care services in Southfield Public Schools' Magnolia Center.
- The District has settled collective bargaining agreements with all major employee groups. It is significant to note that salary increases for the staff provide for a base of 1% or 1.5% (depending on the unit affiliation). The Board of Education Trustees very much appreciate our staff members' contribution toward controlling costs in this manner, ultimately benefiting the students in the classroom.
- It is also significant to note that most bargaining groups continue to assist the District in attempting to control the sizable increases experienced in health care costs in recent years by agreeing to one or more modifications to their current plans, such as higher co-pays for prescription drugs and moving to a preferred provider plan, as well as paying a portion of their health care premiums.

BERKLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For Fiscal Year Ending June 30, 2008

Other Key Information, Economic Factors and Next Year's (2007-2008) Budget (Continued)

- The district's September, 2008 enrollment count was 120 full time equivalent students less than projected.

Our Board of Education members and administration monitor the budget very closely and take steps to balance revenues and expenditures to meet their fiscal responsibilities for their taxpayers, citizens, investors, and creditors. The Board Finance Committee will convene throughout the school year to monitor developments that occur that impact District finances. Significant changes in the financial picture will be reflected in the District's moving three year projection to gauge the overall impact on the District's budget.

Instructional Program Highlights

The District is very proud of the outstanding educational program offered to our students. The following are just some of our highlights:

- Foreign language (Spanish) instruction 1-12
- Chinese instruction for pre-school children at Tyndall Center
- Chinese program at Norup International School – pre-school, grades K-2, 4-5
- New software for data analysis and a student assessment system (Pearson)
- 19 advanced placement courses offered to our BHS students
- Center for the Advanced Studies and the Arts (CASA) for BHS students
- International Academy (IA) member district
- Multi-age classrooms – 2 or 3 grades of students working as one unit
- District-wide initiative of Data Teams to improve student achievement
- Professional Learning Communities established in every school
- Differentiated instruction K-12
- New core content resources in all core areas in the past four years
- A Young Fives Program for kindergarten eligible children
- 45 state-of-the-art multimedia presentation carts were placed throughout the district
- Candidate status for Norup International School, a K-8 International Baccalaureate School
- Implemented a state-of-the-art media library inventory/check-out system called Destiny
- Use of Successmaker software to support additional reading and math instruction
- Increased on-line credit opportunities for high school and adult students

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it receives. If you have any questions about this report or need additional information, contact Lawrence J. Gallagher, Deputy Superintendent of Finance and Human Resources, Berkley School District, 14700 W. Lincoln, Oak Park, MI 48237.

BERKLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS		LIABILITIES AND NET ASSETS	
CURRENT ASSETS		LIABILITIES	
Cash and investments (Note C)	\$ 4,031,041	Accounts payable	\$ 514,892
Interest receivable	3,667	Benefits payable (Notes B10, G, and H)	612,572
Accounts receivable	167,037	Payroll withholdings	115,528
Taxes receivable (Note B4)	73,708	Accrued payroll	2,750,194
Prepaid expenses	54,045	Accrued and other liabilities	48,775
Inventories (Note B5)	5,322	Due to other governmental units	1,132,078
Due from other funds (Notes B6 and D)	608,975	Deferred revenue (Note B9)	215,725
Due from other governmental units	<u>8,018,829</u>	Due to other funds (Notes B6 and D)	608,975
		Current portion of long-term liabilities	<u>3,012,781</u>
Total current assets	12,962,624	Total current liabilities	9,011,520
NON-CURRENT ASSETS		LONG-TERM LIABILITIES (Notes B8 and F)	
Capital assets (Notes B7 and E)	61,827,214	Lease payable	145,804
Less: accumulated depreciation	<u>(25,394,702)</u>	Bonds payable	28,330,000
		Compensated absences	<u>1,581,842</u>
Total non-current assets	<u>36,432,512</u>	Total long-term liabilities	<u>30,057,646</u>
		Total liabilities	39,069,166
		CONTINGENCIES AND COMMITMENTS (Notes F, I, K, and L)	
		NET ASSETS	
		Investment in capital assets, net of related debt	5,877,512
		Restricted for debt service	1,068,713
		Restricted for capital projects	308,638
		Unrestricted	<u>3,071,107</u>
		Total net assets	<u>10,325,970</u>
TOTAL ASSETS	\$ <u>49,395,136</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$49,395,136</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Instruction	\$24,894,006	\$ 415,912	\$4,144,313	\$(20,333,781)
Supporting services	15,512,051	-	-	(15,512,051)
Community services	318,468	-	125,429	(193,039)
Food services	737,241	529,312	265,317	57,388
Athletics	695,254	140,742	-	(554,512)
School services	2,576,616	2,282,095	-	(294,521)
Bond interest	1,493,621	-	-	(1,493,621)
Other debt service expenses	9,328	-	-	(9,328)
Capital projects	775,225	-	-	(775,225)
Unallocated depreciation expense	<u>1,027,219</u>	<u>-</u>	<u>-</u>	<u>(1,027,219)</u>
Total	<u>\$48,039,029</u>	<u>\$3,368,061</u>	<u>\$4,535,059</u>	<u>(40,135,909)</u>
General revenues				
Property taxes levied for general purposes				3,191,720
Property taxes levied for debt service				3,652,386
Taxes levied for sinking fund				745,350
Federal and state aid not restricted for specific purposes				31,843,722
Interdistrict sources				2,552,512
Interest				227,642
Disposal of capital assets				(184,889)
Miscellaneous				<u>145,572</u>
Total general revenues				<u>42,174,015</u>
CHANGE IN NET ASSETS				2,038,106
NET ASSETS, July 1, 2007				<u>8,287,864</u>
NET ASSETS, June 30, 2008				<u>\$ 10,325,970</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General Fund	Community Services Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
CURRENT ASSETS				
Cash and investments (Note C)	\$ 771,501	\$1,825,756	\$1,433,784	\$ 4,031,041
Accounts receivable	32,843	85,259	48,935	167,037
Interest receivable	1,133	2,516	18	3,667
Taxes receivable (Note B4)	43,140	-	30,568	73,708
Prepaid expenses	54,045	-	-	54,045
Inventories (Note B5)	-	-	5,322	5,322
Due from other governmental units	8,018,829	-	-	8,018,829
Due from other funds (Notes B6 and D)	<u>48,538</u>	<u>323,639</u>	<u>236,798</u>	<u>608,975</u>
TOTAL ASSETS	<u>\$8,970,029</u>	<u>\$2,237,170</u>	<u>\$1,755,425</u>	<u>\$12,962,624</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 351,080	\$ 14,862	\$ 148,950	\$ 514,892
Benefits payable (Notes B10, G, and H)	612,572	-	-	612,572
Payroll withholdings	115,528	-	-	115,528
Accrued payroll	2,690,418	46,308	13,468	2,750,194
Accrued and other liabilities	48,775	-	-	48,775
Due to other governmental units	1,132,078	-	-	1,132,078
Due to other funds (Notes B6 and D)	554,250	-	54,725	608,975
Deferred revenue (Note B9)	<u>187,997</u>	<u>27,728</u>	<u>-</u>	<u>215,725</u>
Total liabilities	5,692,698	88,898	217,143	5,998,739
FUND BALANCES (Note B11)				
Reserved for debt service	-	-	1,068,713	1,068,713
Reserved for capital projects	-	-	308,638	308,638
Undesignated	<u>3,277,331</u>	<u>2,148,272</u>	<u>160,931</u>	<u>5,586,534</u>
Total fund balances	<u>3,277,331</u>	<u>2,148,272</u>	<u>1,538,282</u>	<u>6,963,885</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$8,970,029</u>	<u>\$2,237,170</u>	<u>\$1,755,425</u>	<u>\$12,962,624</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balances – Governmental funds		\$ 6,963,885
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Capital assets at cost (Note E)	\$ 61,827,214	
Accumulated depreciation (Note E)	<u>(25,394,702)</u>	36,432,512
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Lease payable (Note F)	145,804	
Bonds payable (Notes B8 and F)	28,330,000	
Compensated absences (Notes B8 and F)	1,581,842	
Current portion of long-term liabilities (Note F)	<u>3,012,781</u>	<u>(33,070,427)</u>
Total net assets – Governmental activities		\$ <u>10,325,970</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2008

	General Fund	Community Services Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 3,809,145	\$ 2,394,619	\$ 5,126,735	\$ 11,330,499
State sources	34,101,477	-	25,868	34,127,345
Federal sources	1,886,558	125,433	239,449	2,251,440
Interdistrict sources	<u>2,552,512</u>	<u>-</u>	<u>-</u>	<u>2,552,512</u>
Total revenues	42,349,692	2,520,052	5,392,052	50,261,796
EXPENDITURES				
Education				
Instruction	24,744,326	-	-	24,744,326
Supporting services	15,515,853	-	-	15,515,853
Community services	318,468	2,576,617	-	2,895,085
Food services	-	-	737,241	737,241
Athletics	-	-	695,253	695,253
Debt service				
Bond redemption	-	-	2,095,000	2,095,000
Bond interest	-	-	1,548,690	1,548,690
Other debt service expenditures	-	-	9,328	9,328
Capital projects	<u>367,327</u>	<u>-</u>	<u>724,719</u>	<u>1,092,046</u>
Total expenditures	<u>40,945,974</u>	<u>2,576,617</u>	<u>5,810,231</u>	<u>49,332,822</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,403,718	(56,565)	(418,179)	928,974
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	365,775	799,579	1,165,354
Operating transfers out	<u>(1,165,354)</u>	<u>-</u>	<u>-</u>	<u>(1,165,354)</u>
Total other financing sources (uses)	<u>(1,165,354)</u>	<u>365,775</u>	<u>799,579</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	238,364	309,210	381,400	928,974
FUND BALANCES, July 1, 2007	<u>3,038,967</u>	<u>1,839,062</u>	<u>1,156,882</u>	<u>6,034,911</u>
FUND BALANCES, June 30, 2008	<u>\$ 3,277,331</u>	<u>\$ 2,148,272</u>	<u>\$ 1,538,282</u>	<u>\$ 6,963,885</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH
THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Net changes in fund balances – Total governmental funds		\$ 928,974
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for district-wide purposes those costs are shown on the statement of net assets and allocated over their estimated lives as annual depreciation expense in the statement of net activities. This is the amount by which capital outlays exceed depreciation in the current period.</p>		
Capital outlays	\$ 314,785	
Depreciation expense (Note E)	<u>(1,027,219)</u>	(712,434)
Disposal of net assets in district-wide statements not recognized in governmental fund statements.		(184,889)
Payments of capital leases are expenditures in the governmental funds but not in the statement of activities.		5,838
Bond proceeds provide current financial resources to governmental funds; issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund; the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceed bond proceeds.		2,095,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and in the statement of activities when the interest accrues.		55,069
Expenses in the district-wide financial statements that required the use of current financial resources but were not recognized in the governmental funds statements in the current year.		(349,452)
Expenses in the governmental funds statements that required the use of current financial resources but were recognized in the district-wide financial statements in the previous year.		<u>200,000</u>
Changes in net assets – governmental activities		<u>\$ 2,038,106</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT

FIDUCIARY FUNDS – STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and investments (Note C)	<u>\$344,517</u>
TOTAL ASSETS	<u>\$344,517</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Reserve for student groups	<u>\$344,517</u>
Total liabilities	344,517
NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$344,517</u>

The accompanying notes are an integral part of this statement.

BERKLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note A – REPORTING ENTITY

The Board of Education is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Berkley School District. The Board has overall responsibility for funding received by the District from local, State, and Federal government sources and must comply with the respective requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and have primary accountability for fiscal matters. Therefore, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Berkley School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements:

1. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements report information on all of the non-fiduciary activities of the primary government. With the exclusion of materially insignificant items, all interfund activity has been eliminated from these statements. Governmental activities, those supported by intergovernmental revenues and taxes, are reported separately from business-type activities, which derive revenues primarily from fees and charges. All of Berkley School District’s district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include those fees and charges that are generated by a specific function, operating grants, and contributions restricted to meeting the operational needs of a specific function and capital grants and contributions. Certain revenues such as property taxes and unrestricted aid, which benefit more than one function, are reported on the statement of activities as general revenue.

The assets and liabilities of the Agency Fund are reported separately on the statement of fiduciary net assets, as these items are not included in the district-wide statements. Each governmental fund classified as major is reported in a separate column in the fund financial statements. All items not qualifying as major are aggregated and reported in the other governmental funds column.

The District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Community Services Fund – The Community Services Fund is used to record revenues received in conjunction with services provided to the community, such as childcare and facilities rentals and the related disbursements.

Additionally, the District reports the following fiduciary fund type:

Agency Fund – The Agency Fund is a fiduciary fund used to account for assets held by the School District in a trustee capacity or as an agent. A fiduciary fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's Agency Fund is maintained to record the transactions of student and employee groups for school and school-related purposes. The funds are segregated and held in trust for these groups. The financial activity of the Agency Fund is limited to the collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions.

The School District also reports the following nonmajor governmental fund types:

Special Revenue Funds – The School District maintains two nonmajor governmental Special Revenue Funds, which account for food services and athletics.

Debt Service Fund – The School District maintains one nonmajor governmental Debt Service Fund, which is used to account for property tax and other revenue legally restricted for payment of long-term debt.

Capital Projects Fund – The Capital Projects Fund is used to record bond proceeds and other revenue, as well as the disbursement of monies for acquiring new school sites, buildings, equipment, and for major remodeling projects. The fund is maintained until the purpose for which the fund was created has been accomplished.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

Sinking Fund – The School District maintains one nonmajor Sinking Fund, which accounts for property taxes specified for acquiring site and buildings, and major remodeling and repair projects. For projects funded with Sinking Fund millage, the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. BASIS OF ACCOUNTING

District-wide statements – The district-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when it is earned and expenses are recorded when the liability is incurred. Property tax revenue is recognized in the period for which the taxes were levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund-based statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become measurable and available within 60 days. Expenditures are recorded in the accounting period in which the fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recorded when payment is due. Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

3. BUDGETS AND BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. State law permits districts to amend their budgets during the year (Note M).

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year-end. The commitments will be reappropriated and honored during the subsequent year.

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and are due and payable by August 31, respectively. All unpaid taxes levied July 1 become delinquent March 1 of the following year.

The delinquent real property taxes receivable of the Berkley School District are purchased by the County of Oakland, which reimburses the School District directly. Delinquent personal property taxes, including penalty and interest, continue to be collected by the assessing entity and subsequently remitted to the School District.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. PROPERTY TAXES (Continued)

Property tax revenues are considered available when they become due and receivable within the current period and those expected to be collected during a 60-day period after the close of the school fiscal year. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

5. INVENTORIES

Inventories in the Other Governmental Funds consist of food and supplies and are stated at cost, on a first-in, first-out basis, which approximates market value. Disbursements for other inventory-type items are recorded as expenditures at the time of purchase. Payments for inventorable types of supplies, other than food and food supplies, which are not significant at year-end, are recorded as expenditures at the time of purchase.

6. DUE TO/FROM OTHER FUNDS

In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds are representative of lending/borrowing arrangements outstanding at the end of the fiscal year.

7. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of at least \$5,000. Such assets are recorded at historical cost or estimated historical cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The District does not have any infrastructure-type assets. Buildings and improvements are depreciated using the straight-line method over useful lives ranging from 20-50 years. Buses and other vehicles are depreciated using the straight-line method over a period of 10 years. Furniture and other equipment are depreciated using the straight-line method with useful lives ranging from 10-20 years.

8. LONG-TERM LIABILITIES

In the district-wide financial statements, long-term debt and other long-term obligations, such as compensated absences and special termination benefits, are reported as liabilities in the statement of net assets.

9. DEFERRED REVENUE

Deferred revenue represents payments received from Federal, State, and other sources for use in funding future program expenditures or, if not used, may be returned to the funding source.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. RETIREMENT PLAN

Substantially all School District employees are covered by the Michigan Public School Employees' Retirement System (Note G).

11. FUND BALANCES

In the fund-based financial statements, the governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of the fund balance represent tentative management plans that are subject to change. When applicable, reserved funds will be utilized prior to unreserved funds.

Note C – CASH AND INVESTMENTS

Cash and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Statement of net assets	
Cash and investments	\$4,031,041
Fiduciary funds	
Cash and investments	<u>344,517</u>
Total cash and investments	<u>\$4,375,558</u>

Cash and investments as of June 30, 2008, consist of the following:

Cash on hand	\$ 250
Deposits with financial institutions	3,293,085
Michigan Liquid Asset Fund (MILAF)	<u>1,082,223</u>
Total cash and investments	<u>\$4,375,558</u>

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, banker's acceptances, commercial paper rated prime at the time of purchase, which mature not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's cash deposits and investments are in accordance with statutory authority.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note C – CASH AND INVESTMENTS (Continued)

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The MILAF fund is comprised of investments authorized by state law and includes investments in highly rated commercial paper, banker's acceptances, and U.S. obligations. MILAF has been rated AAAm by Standard & Poors.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that the District's investments could be subject to due to the magnitude of investment in a single issuer. This category of investment risk does not apply to the District's only investment deposit, the MILAF external investment pool, which is subject to state statute.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments contained in the MILAF investment pool is approximately 60 days.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2008, \$2,999,342 of the District's deposits with financial institutions in excess of federal insurance limits were held in uncollateralized accounts. The three financial institutions which hold the District's deposits are large, well established institutions with good financial health, somewhat mitigating custodial credit risk.

The District is a voluntary participant in the MILAF external investment pool. The funds of the investment pool are invested in accordance with the Michigan School Code and consist of investments in highly rated commercial paper and U.S. Government Agency obligations. The District owns a pro-rata share of each investment, which is held in the name of the Fund. The fair value of the District's share of the investments in this pool is reported in the accompanying financial statements at cost, which approximates amortized cost.

Foreign Currency Risk – Foreign currency risk is the risk that changes in foreign currency exchange rates will adversely affect the District's deposits. The District has no cash or investment deposits that would be affected by foreign currency risk.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note D – INTERFUND RECEIVABLES AND PAYABLES

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 48,538	\$554,250
Community Services	323,639	-
Other governmental funds	<u>236,798</u>	<u>54,725</u>
	<u>\$608,975</u>	<u>\$608,975</u>

Note E – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2008</u>
Capital assets being depreciated				
Buildings and improvements	\$55,371,901	\$ -	\$ -	\$55,371,901
Furniture and equipment	6,206,913	297,427	(263,000)	6,241,340
Vehicles	<u>196,616</u>	<u>17,357</u>	<u>-</u>	<u>213,973</u>
Total capital assets	61,775,430	314,784	(263,000)	61,827,214
Accumulated depreciation				
Buildings and improvements	18,890,949	931,474	-	19,822,423
Furniture and equipment	5,378,617	90,692	(78,111)	5,391,198
Vehicles	<u>176,027</u>	<u>5,054</u>	<u>-</u>	<u>181,081</u>
Subtotal	<u>24,445,593</u>	<u>1,027,220</u>	<u>(78,111)</u>	<u>25,394,702</u>
Net capital assets being depreciated	<u>\$37,329,837</u>	<u>\$ (712,436)</u>	<u>\$ (184,889)</u>	<u>\$36,432,512</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

BERKLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note F – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the District for the year ended June 30, 2008:

	Bonds Payable	Capital Leases	Other Obligations	Total
BALANCE, July 1, 2007	\$ 32,650,000	\$ 5,838	\$ 1,836,534	\$ 34,492,372
Additions	-	204,142	349,680	553,822
Retirements and payments	(2,095,000)	(64,176)	(404,370)	(2,563,546)
BALANCE, June 30, 2008	<u>\$ 30,555,000</u>	<u>\$ 145,804</u>	<u>\$ 1,781,844</u>	<u>\$ 32,482,648</u>

Bonds payable at June 30, 2008, consists of the following individual issues:

\$30,000,000 1995 School Building and Site Bonds due in installment of \$1,530,000 through January 1, 2009; interest at 5.70% to 7.00% (Note J).	\$ 1,530,000
\$18,895,000 1999 Refunding Bonds General Obligation, unlimited tax due in installments \$1,625,000 to \$1,740,000 through January 1, 2019; interest at 4.05% to 4.70% (Note J).	16,820,000
\$15,750,000 2001 Building and Site Bonds due in installments of \$670,000 to \$1,585,000 through May 1, 2019; interest at 3.95% to 5.63% (Note J).	2,915,000
\$9,425,000 2005 Refunding Bonds General Obligation, unlimited tax due in installments of \$45,000 to \$1,545,000 through May 1, 2019; interest at 3.00% to 5.00% (Note J).	<u>9,290,000</u>
Total bonds payable	<u>\$30,555,000</u>

DEBT SERVICE REQUIREMENTS

The principal and interest requirements to amortize the bonds payable to maturity are as follows:

Years Ending June 30,	Principal	Interest	Total
2009	\$ 2,225,000	\$1,424,160	\$ 3,649,160
2010	2,340,000	1,288,298	3,628,298
2011	2,450,000	1,189,662	3,639,662
2012	2,565,000	1,083,903	3,648,903
2013	2,655,000	969,687	3,624,687
2014 – 2017	11,775,000	2,618,848	14,393,848
2018 - 2019	<u>6,545,000</u>	<u>443,750</u>	<u>6,988,750</u>
	<u>\$30,555,000</u>	<u>\$9,018,308</u>	<u>\$39,573,308</u>

Other governmental funds (which include the Debt Service Funds) have \$1,065,013 available to service the general obligation bonds.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note F – LONG-TERM LIABILITIES (Continued)

CAPITAL LEASE REQUIREMENTS

The remaining lease payment for capital leases in effect at June 30, 2008, is \$204,142 (Note L).

Other obligations represent the District's noncurrent portion of compensated absences (such as accrued vacation, severance pay, and special termination benefits) at June 30, 2008.

Certain obligations of the District will be due within one year and therefore are classified as current. The District's current-portion of long-term liabilities consist of the following components: \$58,340 in capital leases payable, \$529,443 in accrued interest on long-term liabilities, \$200,000 in special termination benefits, and \$2,225,000 of the District's total \$30,555,000, bond principal, which is due and payable within one year.

The District has implemented a special incentive plan (SIP) for early retirement requiring annual payments of \$200,000 in 2008. The liability is recorded in the district-wide financial statements at fair market value, as discounting is not material.

Note G – DEFINED BENEFIT PENSION PLAN

Plan Description

Substantially all District employees participate in the Michigan Public School Employee's Retirement System (MPERS), a cost sharing multiple employer, statewide, defined benefit public employee retirement plan. A basic plan member may retire at age 55 with 30 or more years of credited service or at 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Benefits are fully vested on reaching 10 years of service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits. Benefits are established by state statute.

The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Plan at MPERS, Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, the School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rates total 17.74% and 16.72% of the covered payroll to the plan for the periods from July 1, 2007 through September 30, 2007, and October 1, 2007 through June 30, 2008, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3% to 4.3% of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$4,333,000, \$4,437,000, and \$4,101,000, respectively.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note H – RETIREMENT PLAN

The School District sponsors a retirement plan under Internal Revenue Code 403(b), covering all eligible employees. The Plan provides for voluntary employee contributions and special pay employer contributions made payable to a participant's account upon termination of employment pursuant to the terms of an employment agreement, collective bargaining agreement, letter of agreement, or other agreement obligating the School District to make such contributions to the Code Section 403(b) plan. The District's retirement plan expense for the year ended June 30, 2008, was \$163,771.

Note I – PARTICIPATION IN INSURANCE RISK POOLS

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, injuries to employees and natural disasters. For its general property and liability insurance coverage, the District is a participant in the Metropolitan Association for Improved School Legislation Joint Risk Management Trust (MAISL), a public entity risk pool for the benefit of various school districts located in the metropolitan area. The District pays an annual premium to MAISL for this liability coverage. MAISL is considered a self-sustaining risk pool that will provide coverage for its members for up to \$400,000 per insured event. MAISL obtains unlimited independent coverage for insured events in excess of the \$400,000 limit.

For its workers' compensation insurance coverage, the District is a participant in the MAISL Worker's Compensation Fund, a public entity risk pool for the benefit of various school districts located in the area. The District pays an annual premium to MAISL and coverage is provided for up to \$400,000 per insured event. MAISL obtains independent coverage for insured events in excess of the \$400,000 limit. Settled claims have not exceeded excess coverage for the past three years.

Note J – DEBT DEFEASANCE

In prior years, the District defeased a portion of the 1995 School Building and Site Bonds by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability. As of June 30, 2008, the defeased debt outstanding but removed amounted to \$17,920,000.

In prior years, the District defeased a portion of the 2001 Building and Site Bonds by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability. As of June 30, 2008, the defeased debt outstanding but removed amounted to \$9,275,000.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note K – CONTINGENT LIABILITY-LITIGATION

In the normal course of business, there may be various outstanding contingent liabilities such as lawsuits, etc., which are not reflected in the accompanying financial statements. The District's management is of the opinion that insurance coverage is adequate to cover any anticipated losses or that the amounts, if any, are immaterial to the financial statements.

Note L – COMMITMENTS

Capital Leases

The District entered into a capital lease agreement for copiers effective in August 2007, replacing copiers previously under lease. This addition of \$259,000 is included as equipment under capital assets (Note F).

The following are the future minimum lease payment requirements under this lease:

Year Ending June 30,	
2009	\$ 66,349
2010	66,349
2011	65,977
2012	<u>5,467</u>
	<u>\$204,142</u>

Real Estate

The District holds title to a portion of land adjacent to property it sold in 2007. As part of the sale agreement, the District agreed to continue the usage by the City of Berkley of this "green space" for the City's recreational programs. The City has the option to purchase the property from the District anytime until the expiration of the agreement on August 31, 2018. Terms of the option are as follows:

Outright Purchase	\$325,000
or	
Land Contract	\$25,000 down payment, with the remaining \$300,000 payable in annual installments at 4% interest within 20 years

In the event the District initiates the sale of this property, the City of Berkley has the right of first refusal at the option price noted above.

BERKLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2008

Note L – COMMITMENTS (Continued)

Beverage Consortium

The District is a member of a multi-district association, which negotiated an exclusivity contract with a major beverage and snack food producer/distributor. Beginning July 1, 2008, the District will receive a proportional amount of the exclusivity fee and a variable percentage commission (30%-40%) from all sales of carbonated and non-carbonated beverages. The commitment expires June 30, 2015.

Note M – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2008, the School District incurred expenditures in governmental funds that were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Community Services Fund			
Supplies and other	\$ 160,001	\$ 174,112	\$ 14,111
Equipment	-	1,111	1,111
General Fund			
School administration	2,452,102	2,477,540	25,438
Pupil transportation	811,520	886,538	75,018
Outgoing transfers	748,682	1,165,354	416,672

REQUIRED SUPPLEMENTAL INFORMATION

BERKLEY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended June 30, 2008

	Original Budget	Final Budget	Final Budget Over (Under) Original Budget	Actual	Actual Over (Under) Final Budget
REVENUES					
Local sources	\$ 3,695,196	\$ 3,904,466	\$ 209,270	\$ 3,809,145	\$(95,321)
State sources	34,046,577	33,966,701	(79,876)	34,101,477	134,776
Federal sources	1,674,269	2,004,587	330,318	1,886,558	(118,029)
Interdistrict sources	<u>2,365,269</u>	<u>2,521,656</u>	<u>156,387</u>	<u>2,552,512</u>	<u>30,856</u>
Total revenues	41,781,311	42,397,410	616,099	42,349,692	(47,718)
EXPENDITURES					
Instruction					
Basic programs	20,409,856	20,249,024	(160,832)	19,941,315	(307,709)
Added needs	4,736,191	5,059,006	322,815	4,806,724	(252,282)
Adult and continuing education	69,916	72,644	2,728	65,405	(7,239)
Supporting services					
Pupil services	2,699,221	3,057,294	358,073	2,978,241	(79,053)
Instructional staff services	2,351,513	2,333,732	(17,781)	2,185,741	(147,991)
General administration	878,579	899,132	20,553	803,529	(95,603)
School administration	2,442,654	2,452,102	9,448	2,477,540	25,438
Business services	928,050	857,660	(70,390)	856,493	(1,167)
Operation and maintenance	3,974,685	4,099,919	125,234	4,090,340	(9,579)
Pupil transportation	811,520	811,520	-	886,538	75,018
Central services	1,284,558	1,407,619	123,061	1,310,227	(97,392)
Community services	<u>394,896</u>	<u>346,881</u>	<u>(48,015)</u>	<u>318,468</u>	<u>(28,413)</u>
Total expenditures	40,981,639	41,646,533	664,894	40,720,561	(925,972)
OTHER FINANCING SOURCES (USES)					
Incoming (outgoing) transfers and other transactions	(748,682)	(748,682)	-	(1,165,354)	(416,672)
Other transactions	<u>-</u>	<u>(230,315)</u>	<u>(230,315)</u>	<u>(225,413)</u>	<u>4,902</u>
CHANGE IN FUND BALANCES	\$ <u>50,990</u>	\$ <u>(228,120)</u>	\$ <u>(279,110)</u>	\$ <u>238,364</u>	\$ <u>466,484</u>

BERKLEY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – COMMUNITY SERVICES FUND

For the Year Ended June 30, 2008

	Original Budget	Final Budget	Final Budget Over (Under) Original Budget	Actual	Actual Over (Under) Final Budget
REVENUES					
Local sources	\$ 2,426,920	\$2,488,837	\$ 61,917	\$2,394,619	\$(94,218)
Federal sources	-	185,000	185,000	125,433	(59,567)
Transfer to	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,775</u>	<u>365,775</u>
Total revenues	2,426,920	2,673,837	246,917	2,885,827	211,990
EXPENDITURES					
Salaries	1,479,002	1,530,831	51,829	1,497,873	(32,958)
Employee benefits	497,329	480,531	(16,798)	461,086	(19,445)
Purchased services	91,508	95,293	3,758	88,106	(7,187)
Basic program	100,000	130,000	30,000	108,261	(21,739)
Supplies and other	152,247	160,001	7,754	174,112	14,111
Administrative overhead	127,309	132,687	5,378	120,635	(12,052)
Equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,111</u>	<u>1,111</u>
Total expenditures	<u>2,447,395</u>	<u>2,529,343</u>	<u>81,921</u>	<u>2,451,184</u>	<u>(78,159)</u>
CHANGE IN FUND BALANCES	<u>\$(20,475)</u>	<u>\$ 144,494</u>	<u>\$ 164,996</u>	<u>\$ 434,643</u>	<u>\$ 290,149</u>